

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 18, 1947

To Chairman Eccles

Subject: Expansion in bank credit

From Woodlief Thomas

The Federal Advisory Council states that: "For the past year the total volume of bank credit (i.e. the available amount of bank money) as measured by adjusted demand deposits has been practically level. As bank loans have increased, the banks have decreased their investments."

As shown on the attached table and charts, which are being published in the November Bulletin, total deposits and currency held by individuals and businesses (excluding U. S. Government and interbank deposits) increased by 5.5 billion dollars in the 12 months ending September 30. In the third quarter of 1947 this increase was 2.3 billion dollars, or an annual rate of over 9 billion dollars.

The principal factors accounting for this growth in bank credit were an expansion of bank loans in the 12-month period of 7 billion dollars and an inflow in gold of 2.7 billion dollars. Banks, including Federal Reserve and mutual savings banks, reduced their holdings of Government securities by nearly 11 billion dollars, but at the same time there was a decrease in U. S. Government deposits of nearly 8 billion dollars. During the third quarter of 1947 the large loan expansion of 2.3 billion dollars was the principal factor accounting for the further growth in deposits.

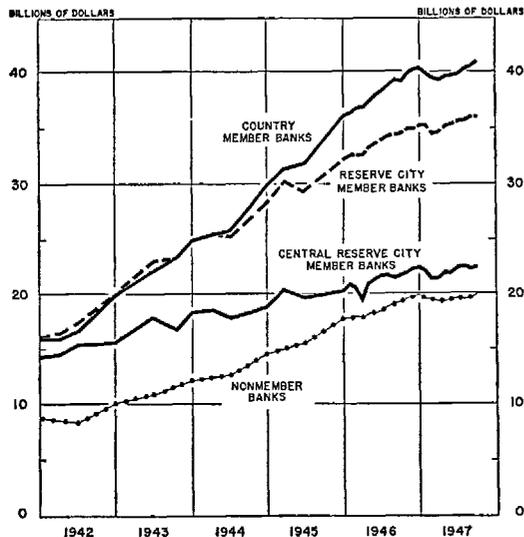
The Council's statement is apparently based upon figures for weekly reporting member banks, which have shown only a moderate increase in demand deposits adjusted during the last four or five months following a sharp increase in the second quarter of the year. In recent months, however, deposits at country member banks, and no doubt also at nonmember banks, have increased sharply, reflecting a seasonal flow of funds to agricultural regions which has been particularly great this year because of the high prices of farm products.

City banks have contributed to the overall growth in deposits by the sharp increase of over 2.5 billion dollars in their loans since June. They have been able to increase these loans in part because of the gold inflow and in part because of an increase in interbank balances, as well as through a decline of about a billion dollars in their holdings of U. S. Government securities. So it is not true, even in the case of city banks, as is implied in the Council's statement, that banks have decreased their investments corresponding to the increase in loans.

W. J.

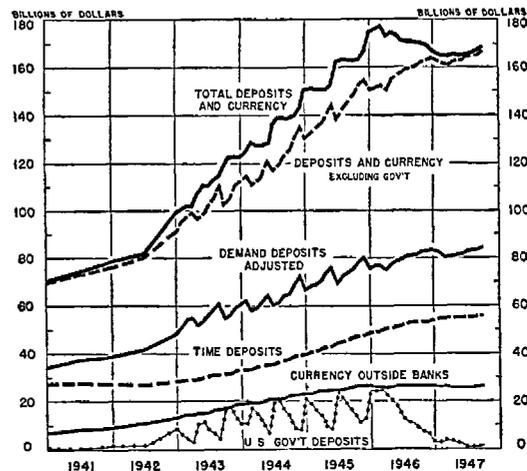
Attachment

**COMMERCIAL BANK DEPOSITS
BY CLASS OF BANK**



Total of demand deposits (adjusted to exclude U. S. Government and interbank deposits and collection items) and time deposits. Figures for nonmember banks are partly estimated throughout; preliminary estimates for 1947. All data are for call report dates, 1942-1945; end of month, 1946; last Wednesday of month, 1947. Latest figures are for September.

BANK DEPOSITS AND CURRENCY



Figures are partly estimated. Deposits are for all banks in the United States. Demand deposits adjusted exclude U. S. Government and interbank deposits and items in process of collection. Time deposits include deposits in the Postal Savings System and in mutual savings banks. Figures are for June and December, 1941-1942; end of month, 1943-1946; last Wednesday of month, 1947. Figures subsequent to December 1946 are preliminary; latest figures are for September.

**FACTORS IN EXPANSION OF DEPOSITS AND CURRENCY HOLDINGS
OF INDIVIDUALS AND BUSINESSES**

[In billions of dollars, partly estimated]

Factor in deposit change	Sept. 30, 1946 - Sept. 30, 1947	1947			
		Fourth quarter	First quarter	Second quarter	Third quarter
Expansive factors					
Bank loans	+7.0	+2.2	+1.3	+1.2	+2.3
Bank holdings of State and local gov't securities	+1.1	..	+0.3	+0.3	+0.5
Bank holdings of U. S. Government securities:					
Federal Reserve Banks	..	..	..	..	+0.5
Commercial and mutual savings banks	..	..	..	..	+0.6
Gold certificates	+2.7	+0.3	+0.9	+0.8	+0.7
U. S. Government deposits	-7.7	-6.9	..	-4.0	..
Other factors, net	..	..	-0.1	..	..
Contractive factors					
Bank holdings of U. S. Government securities:					
Commercial and mutual savings banks	-8.9	-5.2	-2.2	-2.0	..
Federal Reserve Banks	-1.7	-0.7	-0.8	-0.7	..
U. S. Government deposits	..	..	+2.3	..	+0.9
Other factors, net	+1.8	+0.3	..	+0.8	+1.4
Change in deposits and currency held by individuals and businesses					
Total	+5.5	+3.1	-2.7	+2.8	+2.3
(Demand deposits, adjusted)					
Demand deposits, adjusted	+2.8	+1.9	-2.9	+2.1	+1.7
Time deposits	+2.9	+1.0	+0.9	+0.7	+0.3
Currency outside banks	-0.2	+0.2	-0.7	..	+0.3

NOTE.—Figures cover all commercial banks, Federal Reserve Banks, mutual savings banks, and the Postal Savings System; interbank items are excluded.